

FX Outlook: USD, Yen & AUD

Video highlights:

- In September, the Federal Reserve announced a 25 basis point reduction in its key interest rate, bringing the target range to 4% to 4.25%. This decision is primarily attributed to signs of weakness in the labor market. However, Chairman Jerome Powell cautioned that inflation remains a key concern, preventing a clear path for future rate cuts.
- The Fed has revised its inflation expectations for 2026, increasing the core PCE forecast from 2.4% to 2.6%. Investors should closely monitor inflation trends, as they may influence the timing of further rate cuts.
- Following the Fed's announcement, the U.S. dollar appreciated, indicating potential short-term consolidation. Despite this, significant upward movement is unlikely due to a weakening job market. The resistance level for the DXY index is referenced around the 100 level.
- On the other hand, the Bank of Japan maintained its interest rate at 0.5%. However, the BOJ is having plans to sell its holdings of ETFs and J-REIT, suggesting a gradual normalization of its monetary policy. Optimistic forecasts regarding corporate profits may further support this shift.
- Although Japan's core inflation rate slightly decreased to 3.3%, it remains above the BOJ's target. This indicates that the likelihood of further rate hikes is increasing, potentially strengthening the yen; USD/JPY may reach 142 in Q4 2025.
- In July, Australia's inflation data rose, primarily driven by delayed energy subsidies and increased travel-related spending during the school holidays. However, observing inflation trends over a longer period shows an overall declining trajectory, suggesting that the Reserve Bank of Australia (RBA) may still have room for rate cuts. Futures indicate that the RBA might consider a 25 basis point reduction in its November meeting.
- Historically, the RBA has adopted a more cautious approach to monetary policy compared to other major central banks, whether during past rate hike cycles or the recent easing period. Consequently, it is expected that the Australian dollar will find support in the near term, with significant support seen around the 100-day moving average level of 0.6511.

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